



BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission

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IN THE MATTER OF THE COMMISSION'S INQUIRY
INTO CONSIDERATION OF DEVELOPING
PROCEDURES FOR RATE CASES OR OTHER UTILITY
SPECIFIC APPLICATION PROCESSES IN ORDER TO
STUDY AND CONSIDER RATE DESIGN OPTIONS
FOR ELECTRIC AND GAS PUBLIC SERVICE
CORPORATIONS.

DOCKET NO. AU-00000C-14-0329

Comments of Western Resource
Advocates

ORIGINAL

On September 29, 2014, Staff docketed a notice requesting comments on its proposed procedure for considering rate design issues prior to a utility's rate case. Western Resource Advocates (WRA) provides these comments in response to Staff's proposal. We believe that the Commission should devote its time and resources to resolving fundamental issues facing the electric industry, that the proposed optional rate design procedure will misdirect resources by looking at symptoms rather than fundamental issues, and that the information to be provided on bill impacts is incomplete and perhaps misleading.

1. The proposed procedure will not resolve issues facing the electric industry. Staff's filing does not provide any reasons for giving special attention to rate design in isolation from other issues. Electric utilities have raised concerns about their ability to recover fixed costs through kWh charges as adoption of distributed generation expands and as energy efficiency improves. In addition, utilities are currently facing little or no load growth. Staff's rate design proposal appears to be a means for addressing these concerns. Unfortunately, litigation of a narrow issue -- rate design -- is not effective for understanding or addressing the underlying factors affecting utility service in a rapidly changing environment. Some of these factors are listed below.

- a) **Market responses.** Customers are seeking reduced pollution, more efficient energy use, resilient power supplies, control over their electricity supply and usage, and stable energy costs. Competitors of electric utilities provide the types of services customers want, often through innovations in technology, financing, marketing, and so forth; sometimes these competitive services are bundled with other services. As utility rate designs are changed, entrepreneurs offering distributed generation services, including on-site energy storage, and energy efficiency measures will also focus on those services and measures which help customers reduce or avoid higher utility charges.

Consequently, rate design changes alone may not produce the revenues utilities or the Commission expect.

- b) **Impacts on innovation.** Some possible rate designs can stifle innovation by effectively imposing restrictions on market entry. For example, some rate designs would make it very expensive for customers to obtain energy services from a provider other than the utility. Innovation is generally beneficial for society and the economy. Rate designs that inhibit innovation should be avoided.
- c) **The role of new business models.** A utility and regulatory focus on fixed cost recovery is misplaced when competition is increasing. As pointed out in a *Harvard Business Review* article, aptly titled “Innovation Killers: How Financial Tools Destroy Your Capacity to Do New Things,” a business that is subject to competition from market entrants offering new technologies or services cannot hope to compete if it focuses its efforts on recovering fixed costs of its existing investments in older technology while competitors do not have such fixed costs.¹ Rather, utilities should be focusing on new business strategies to enhance their long-run competitiveness.

2. The Commission needs to undertake an open and comprehensive investigation of the future of the electric industry. This investigation should focus on encouraging innovation, delivering energy services customers want, maintaining a reliable grid, and developing new utility and regulatory business strategies.² The Commission should lead a process that empowers all stakeholders to buy into the process and into the outcomes. In addition, the Commission should treat its investigation as a learning process for all parties. That process involves developing a common understanding of the issues by working with a broad network of stakeholders and experts; creating, trying out, and evaluating potential solutions; and applying and assessing solutions. Learning must also address underlying assumptions, norms, values, and beliefs, and should not be restricted by looking only at adjustments to rate design.

Specifically, the Commission’s investigation should:

- a) **Incorporate multiple perspectives from a wide range of stakeholders and experts.** The issues surrounding the scope and nature of utility service go well beyond short-term utility financial security and include expanding customer options, the role of innovation, and the role of utilities in the energy market. The Commission should encourage full, active participation of all stakeholders in defining the problem and in working out solutions to the problem.
- b) **Establish and maintain trust among all parties.**

¹ C. Christensen, S. Kaufman, and W. Shih, 2008. “Innovation Killers: How Financial Tools Destroy Your Capacity To Do New Things,” *Harvard Business Review* 86 (January, 2008), 98-105.

² New York State is pursuing a comprehensive approach. New York State Department of Public Service, 2014. *Reforming the Energy Vision*, Staff Report and Proposal, Case 14-M-0101, [http://www3.dps.ny.gov/W/PSCWeb.nsf/96f0fec0b45a3c6485257688006a701a/26be8a93967e604785257cc40066b91a/\\$FILE/ATTKOJ3L.pdf/Reforming%20The%20Energy%20Vision%20\(REV\)%20REPORT%204.25.%2014.pdf](http://www3.dps.ny.gov/W/PSCWeb.nsf/96f0fec0b45a3c6485257688006a701a/26be8a93967e604785257cc40066b91a/$FILE/ATTKOJ3L.pdf/Reforming%20The%20Energy%20Vision%20(REV)%20REPORT%204.25.%2014.pdf).

- c) **Address impacts on low income customers.** Low income customers constitute a large and increasing share of the market. In 2012, 18.7% of Arizonans had income below the poverty level in the previous 12 months, up from 13.7% in 2001.³
- d) **Consider implicit and explicit incentives.** As the Commission engages in setting rates in the evolving marketplace, it should consider incentives to customers and utilities inherent in rate design and other aspects of regulation. For example, what is the incentive to the utility of better providing what customers want? Additionally, the Commission should consider the potential for anti-competitive or misleading practices.
- e) **Encourage utilities to develop new business models consistent with the public interest.**

3. The proposed information on bill impacts is insufficient. In the sample process for rate design issues, Staff includes a requirement (item 9) that a utility provide bill impacts of proposed rate design changes for the average and median use customers. Changes in rate design, such as imposition of kW charges or higher monthly service charges, are likely going to affect low use customers and high use customers more than average or median customers. By looking only at average or median customer bill impacts, the most significant bill impacts will be ignored. Further, bill impacts on low income customers should be analyzed. As noted above, low income customers comprise a large segment of a utility's residential customers. Therefore, WRA recommends that, when the Commission considers rate design issues, whether under Staff's proposed process or in rate cases generally, it require utilities to provide bill impacts for multiple usage categories, such as for each decile of customers by quantity of electricity or gas usage, and provide bill impacts for low income customers.

4. Conclusions. Staff's proposed process is not adequate for understanding and addressing the range of problems facing utilities today. It provides only a partial solution that could lead the Commission, customers, and utilities in the wrong direction. A comprehensive, structured, and open conversation, as described above, is needed.

Respectfully submitted this 16th day of October 2014.



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Original and 13 copies mailed to Docket Control.

³ U.S. Census Bureau, *Poverty: 2000 to 2012*, American Community Survey Briefs, ACSBR/12-01, September 2013.